



STATE WATER PROJECT CONTRACT EXTENSION PROJECT

Draft Meeting Summary and Action Items

State Water Project Contract Extension Project

August 7, 2013 10:00 AM – 3:00 PM

Draft Meeting Attendance List

California Department of Water Resources Lead Negotiators

- Steve Cohen, California Department of Water Resources
- Rob Cooke, California Department of Water Resources
- Perla Netto-Brown, California Department of Water Resources
- Vera Sandronsky, California Department of Water Resources
- Carl Torgersen, California Department of Water Resources
- Ralph Torres, California Department of Water Resources

State Water Project Contractor Lead Negotiators

- Mike Wallace, Alameda County Flood Control Water Conservation District, Zone 7
- Dan Flory, Antelope Valley-Eastern Kern Water Agency
- Paul Gosselin, Butte County
- Valerie Pryor, Castaic Lake Water Agency
- Mark Krause, Desert Water Agency
- Curtis Creel, Kern County Water Agency
- Kathy Cortner, Mojave Water Agency
- Deven Upadhyay, MWD of Southern California
- Phillip Miller Napa County Flood Control and Water Resources
- Bob Perreault, Plumas County Flood Control & Water Conservation District
- Ray Stokes, Santa Barbara County / Central Coast Water Authority
- Joan Maher, Santa Clara Valley Water District
- David Okita, Solano County Water Agency

- Mark Gilkey (by phone), Tulare Lake Water Storage District and County of Kings
- Steve Wickstrum (by phone), Ventura County Flood Control District

California Department of Water Resources Staff

- Mark, Andersen, California Department of Water Resources
- Terri Ely, California Department of Water Resources
- Karen Enstrom, California Department of Water Resources
- Scott Jercich, California Department of Water Resources
- Spencer Kenner, California Department of Water Resources
- Kathie Kishaba, California Department of Water Resources
- Philip LeCocq, California Department of Water Resources
- Chris Martin, California Department of Water Resources
- Jamie Moran, California Department of Water Resources
- Nancy Quan, California Department of Water Resources
- Dave Paulson, California Department of Water Resources
- David Sandino, California Department of Water Resources
- Rita Sanko, California Department of Water Resources
- Lisa Toms, California Department of Water Resources
- Dena Uding, California Department of Water Resources

<p><u>State Water Project Contractors and SWC, Inc.</u></p> <ul style="list-style-type: none"> • Josh Nelson, Best, Best & Krieger LLP/Crestline Lake Water Agency • Dan Masnada (by phone), Castaic Lake Water Agency • Tom Glover (on the phone), Dudley Ridge Water District • Gary Bucher (by phone), Kern County Water Agency • Don Marquez, Kern County Water Agency • Jaime Dalida, MWD of Southern California • Kevin Donhoff, MWD of Southern California • David Reukema, MWD of Southern California • John Schlotterbeck (by phone), MWD of Southern California • John Pernula (by phone), Palmdale Water Agency • Leah Wills (by phone), Plumas County Flood Control and Water Conservation District • Thomas Todd (by phone), San Geronio Pass Water Agency • Dana Jacobson, Santa Clara Valley Water District • Eric Chapman, State Water Contractors, Inc. • Terry Erlewine, State Water Contractors, Inc. • Theresa Lightle, State Water Contractors, Inc. • Stan Powell, State Water Contractors, Inc. • Julie Ramsay, State Water Contractors, Inc. • Cliff Schulz, State Water Contractors Inc. • Linda Standlee, State Water Contractors, Inc. • Lisa Kern (by phone), Ventura County Flood Control District 	<p>Resources</p> <ul style="list-style-type: none"> • Pedro Villalobos, California Department of Water Resources • Ted Alvarez, California Department of Water Resources <p><u>DWR Consultants for Contract Extension</u></p> <ul style="list-style-type: none"> • Erick Cooke, Environmental Science Associates • Barbara McDonnell, MWH Global • Cathy McEfee, Environmental Science Associates <p><u>Public</u></p> <ul style="list-style-type: none"> • Debbie Espe (by phone), San Diego County Water Agency • Robert Kunde, Wheeler Ridge-Maricopa Water Storage District • Dan McDaniel (by phone), Central Delta Water Agency • Doug Montague, Montague, DeRose & Associates • Thomas Rinn (by phone), Waterworks Consulting • Patricia Schifferle, Planning & Conservation League <p><u>Facilitation Team</u></p> <ul style="list-style-type: none"> • Alex Braunstein, Kearns & West • Mike Harty, Kearns & West • Kelsey Rugani, Kearns & West • Anna West, Kearns & West
--	---

I. Welcome/Introductions

There were roundtable introductions of the negotiation teams and staff. Members of the public were given the opportunity to introduce themselves.

II. Meeting Overview

Anna West outlined the negotiation session agenda and stated that the DWR presentation and the SWP Contractor's Third Offer will be discussed. She reviewed the process for public comment at the end of the meeting. The group finalized the July 10 Meeting Summary, subsequently posted to the website.

III. Presentation on DWR Authorities, SWP Reporting, and Financial Management

Carl Torgersen framed DWR's presentation as describing how the State Water Project currently shares information, and suggested that DWR intends to provide additional information on items such as the Delta Compliance Program.

Scott Jercich reviewed the outline of the presentation reviewing DWR's authorities, SWP reporting and financial management. DWR administers the State Water Project based on authorities provided by statutes. He reviewed the Central Valley Water Act and Burns Porter Act. DWR spends significant time reporting on activities, which members of the public and even Contractors may not be fully aware. Scott reviewed formal reports, including legislative reports, Bulletin 132, bond sale disclosure and legal based financial statements for government, and generally accepted Accounting Principle Based Financial Statements. Scott discussed different independent audits of the State Water Project as well as DWR's financial management track record.

SWP bonds are AAA rated which means lower interest rates for the Contractors and their customers. We've also heard from external parties remarking on DWR's highly efficient debt portfolio management practice resulting in millions of dollars of savings for SWP contractors. DWR sends the Statement of Charges six months in advance, providing the Contractors time to plan how they are going to pay their bills, along with substantial (150+ pages) support.

Scott explained that for financial program management the Department has implemented the WREM 65 process, reinstituted program component statements, and is now initiating an SWP program control effort. He also reviewed the many committees and meetings the Department participates in within various State Water Contractors, Inc. committees. He shared that the Department has an extensive and transparent reporting process, open communications and provides significant information. The Department is implementing cost control improvements and is open to additional improvements ideas.

Steve Cohen and Scott clarified that Contractor participation in State Water Contractors, Inc. meetings refers to 27 of the 29 Contractors as members of State Water Contractors, Inc.

IV. SWP Contractor's Counter Offer

David Okita thanked Scott for the presentation, stating that it was a good foundation for the SWP Contractor's Third Offer.

David Okita (Solano County Water Agency) gave an overview of the SWP Contractor's Third Offer stating that he, Deven Upadhyay (Metropolitan Water District), and Ray Stokes (Central Coast Water Authority) would be presenting.

Deven Upadhyay acknowledged Scott's presentation illuminated a lot of the good things that are currently being done at the State Water Project, remarking that the sheer quantity is impressive. Deven suggested that his presentation would focus on the relationship between DWR and the SWP Contractors, the customers for the State Water Project.

Deven elaborated that the presentation provides a general overview of the SWP Contractor's offer and has tried to answer questions posed in previous meetings, including, "What do you mean by improved financial management?" and also "What belongs in this contract amendment and what can be done outside of that process?" Deven stated that the offer makes the distinction between areas where the SWP Contractors provide input and other areas where their approval is required, because the Contractors are trying to present a proposal that doesn't interfere with the Department's authority. Finally, the presentation addresses what timeline SWP Contractors are proposing for these changes, emphasizing that the offer focuses on enhancements, because DWR is doing so much already.

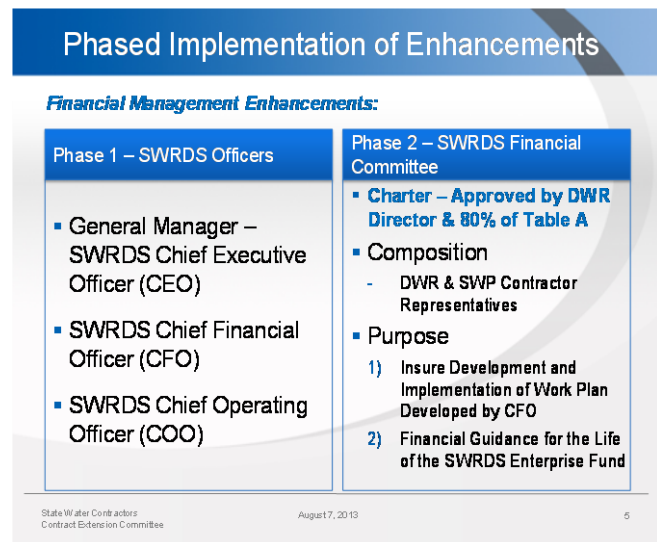
Deven suggested that he would be focusing on enhancements in the financial management of the State Water Project, and then Ray Stokes would talk about tools. Deven presented the SWP Contractors financial management proposals in phases. Phase 1 would create General Manager, Chief Financial Officer, and Chief Operating Officer positions for management of the State Water Project and the State Water Resources Development System (SWRDS).

The General Manager oversees operations and finances. The CFO manages the financial reporting on SWRDS while the COO oversees current and future operations. Creating and filling these positions is Phase 1 and would be completed by the end of December 2014.

Financial reporting for SWRDS covers forecasting, accounting for water sales, debt management, capital and energy costs, and financial policies.

Phase 2 would create a SWRDS Financial Committee comprised of both DWR and SWP Contractors personnel to provide input and have approval on some parts of the State Water Project.

Deven described the SWRDS Financial Committee, which would have a charter approved by 80 percent of the Contractors based on Table A allocations, along with the Department, and a chair elected by the DWR Director and Contractor representatives. The role of the Committee would be to approve the work plan described in Phase 3. The Committee would approve the work plan while providing ongoing guidance on financial policies and goals of SWRDS. Phase 2 would be complete by June 30, 2015.



In Phase 3, the CFO would be working with the Committee to develop a work plan to be approved by December 31st 2015, establishing the blue print for how one would establish SWRDS financial management and debt management as separate from DWR's non-SWRDS activities. The work plan would include:

- A Blueprint for consolidating SWRDS functions within a single organization;
- Identify how to take advantage of current capabilities to provide reports;
- Identify how to maximize the SWP financial system for reports; and
- Reporting requirements.

Phased Implementation of Enhancements (cont.)	
Financial Management Improvements	
Phase 3 – Work Plan	Phase 4 – Complete Consolidation of SWRDS Management Under GM
<ul style="list-style-type: none"> ▪ Work Plan Submitted to and Approved by Committee by Dec. 31, 2015 ▪ Work Plan Minimum Objectives: <ol style="list-style-type: none"> 1. Blueprint or How DWR will Consolidate All SWRDS Financial Functions within a Single Organization 2. How to Take Advantage of Current Capabilities to Provide Reports (Near-Term) 3. How to Maximize SAP Financial System to Meet Reporting Requirements 4. Reporting Requirements 	<ul style="list-style-type: none"> ▪ Complete Implementation of Financial Management Enhancement Work Plan by December 31, 2017
State Water Contractors Contract Extension Committee	August 7, 2013 6

Deven stated that the work plan also includes a set of dashboard reports that would promote ease of use and ease of flow of information, so, for example, Metropolitan Water District would be able to compare Statements of Charges with other factors that might affect the State Water Project within a given year.

Deven stated the final phase would be implementation of the work plan by December 31st 2017, at which point the SWRDS Financial Committee would be in maintenance mode.

Deven discussed the aspects of the proposal where the Contractors would be given an approval role versus where they would be providing input. Areas where the Contractors would have approval include the charter of committee, identifying the chair (with the Director), the financial work plan, any proposal to amend the date of implementation of the work plan, establishing operating reserves policy, adjusting the GOA level, adjusting the SSA level and consideration of 1hh expansion for specific projects not currently authorized under 1hh. Additionally, the CFO would oversee the general operating reserve policy, and would present milestones, and the level of the GOA changes with the milestones. The CFO goes to the Finance Committee to get an adjustment of the GOA level.

Purpose of Accounts within SWRDS		
Current SWRDS Account	Establish New SWRDS Accounts	
General Operating Account (GOA)	SWRDS Reinvestment Account (SRA)	SWRDS Support Account (SSA)
<ul style="list-style-type: none"> ▪ Used for any cash-flow deficiencies and/or emergencies resulting from a chargeable SWRDS water supply purpose 	<ul style="list-style-type: none"> ▪ Provides a SWRDS revenue stream for the SSA by reinvesting the SRA balance of Article 51(e) 	<ul style="list-style-type: none"> ▪ Provides funds to pay for System costs with no revenue sources ▪ Provides cash-flow reserves for cash deficiencies caused by non-chargeable purpose under the Water Supply Contract
State Water Contractors Contract Extension Committee	August 7, 2013	8

Deven cited financial policies and goals, and budgets as areas where the committee and Contractors would provide guidance, not approval. DWR would consult with Contractors or the committee, on the use of SSA funds. The Committee Charter may clarify aspects of approval and/or guidance.

Ray Stokes gave an overview of the accounts related to Objectives 2a and 2b, including the

General Operating Account (GOA), the SWRDS Reinvestment Account (SRA), and the SWRDS Support Account (SSA). A foundational concept with these accounts as they are currently proposed is that it assumes there are 51(e) revenues after 2035.

The SWP Contractors propose to raise the GOA to \$150 million; the increase would be tied to the financial management phases described previously. Initial funding of the GOA would be 51(e) revenues and, subsequently, the SWRDS reinvestment account. SWP Contractors acknowledge that one of the current difficulties is the \$2 million annual cap and the Contractors propose to eliminate the cap, and increase the priority for the GOA after rate management.

General Operating Reserve (GOA)	
GOA	SWC Offer
Funding Level	<ul style="list-style-type: none"> Increase from \$22.7M to \$50M Completion of Financial Management Enhancements: <ul style="list-style-type: none"> Phase 1: \$ 50M Increased to \$ 60M Phase 2: \$ 60M Increased to \$ 70M Phase 3: \$ 70M Increased to \$100M Phase 4: \$100M Increased to \$150M
Funding Source	<ul style="list-style-type: none"> Pre-2035: 51(e) Revenue Post-2035: Investment Income SRA
Funding Rate	<ul style="list-style-type: none"> From \$2M/Annually to Unlimited
Funding Priority	<ul style="list-style-type: none"> 1st Priority After Annual RMC
Replenishment	<ul style="list-style-type: none"> Normal Statement of Charges
Interest Earnings	<ul style="list-style-type: none"> Refund to SWP Contractors
Periodic Adjustments	<ul style="list-style-type: none"> Subject to the SWRDS Financial Committee

SWP Contractors propose the GOA be for reimbursable costs, and, if used, it would be replenished by the normal billing cycles to the Contractors. Any interest earned on the account would be refunded to the Contractors and periodic adjustments to the level of the GOA would be subject to the SWRDS Financial Committee.

Ray stated that under the current offer, SWP Contractors would retain the 30 day grace period, supplemental billing provisions would remain, and the variable billing calculation would remain as it is today.

General Operating Reserve (GOA)
<ul style="list-style-type: none"> Focus is on "Cash" Reserves Retaining Contract Provisions: <ul style="list-style-type: none"> 30-Day Grace Period Supplemental Billing Provisions Variable Calculation Based on Water Delivered Variable Billings Timing and Method of Payment

Ray described the SWRDS Reinvestment Account (SRA). The purpose is to generate investment income to provide a secure SWRDS revenue stream for the SWRDS Support Account (SSA).

SWRDS Reinvestment Account (SRA)

SRA	SWC Offer
Fund Purpose	To Generate Investment Income, Providing a Secure SWRDS Revenue Stream for the SSA
Funding Level	TBD% of 51(e) Revenues
Funding Sources	51(e) Revenues
Funding Rate	Annual Allowable %
Funding Priority	1 st Priority After SSA Funding
Replenishment	N/A
Periodic Review & Adjustment	N/A
Investment Earnings	Pre-2035: Build SRA Fund Balance Used to Generate Investment Income Post-2035: Annual Revenue Source for SSA Replenishment

State Water Contractors
Contract Extension Committee

August 7, 2013

10

SWP Contractors propose an SSA level of \$60 million, initially funded from 51(e) revenues and annually replenished up to \$60 million. Before 2035, the SSA would be replenished by the 51(e) revenue, after which it would be replenished by SRA investment earnings. The SSA would have priority after the GOA and be subject to periodic review and adjustment from the SWRDS Financial Committee, beginning immediately.

SWRDS Support Account (SSA)

SSA	SWC Offer
Fund Purpose	<ul style="list-style-type: none"> Provides funds to pay for System costs with no revenue sources. Provides cash-flow reserves for cash deficiencies caused by a non-chargeable purpose under the Water Supply Contract.
Funding Level	<ul style="list-style-type: none"> \$60 Million
Funding Sources	<ul style="list-style-type: none"> Initial Funding: 51(e) Revenue
Funding Rate	<ul style="list-style-type: none"> Annual Replenishment up to Maximum Fund Level
Funding Priority	<ul style="list-style-type: none"> 1st Priority After the Revised GOA Priority
Replenishment	<ul style="list-style-type: none"> Pre-2035: 51(e) Revenue Post-2035: Investment Earnings from SRA
Periodic Review & Adjustment	<ul style="list-style-type: none"> Subject to the SWRDS Financial Committee
Investment Earnings	<ul style="list-style-type: none"> Retained in SSA to Reduce Annual SRA Needs

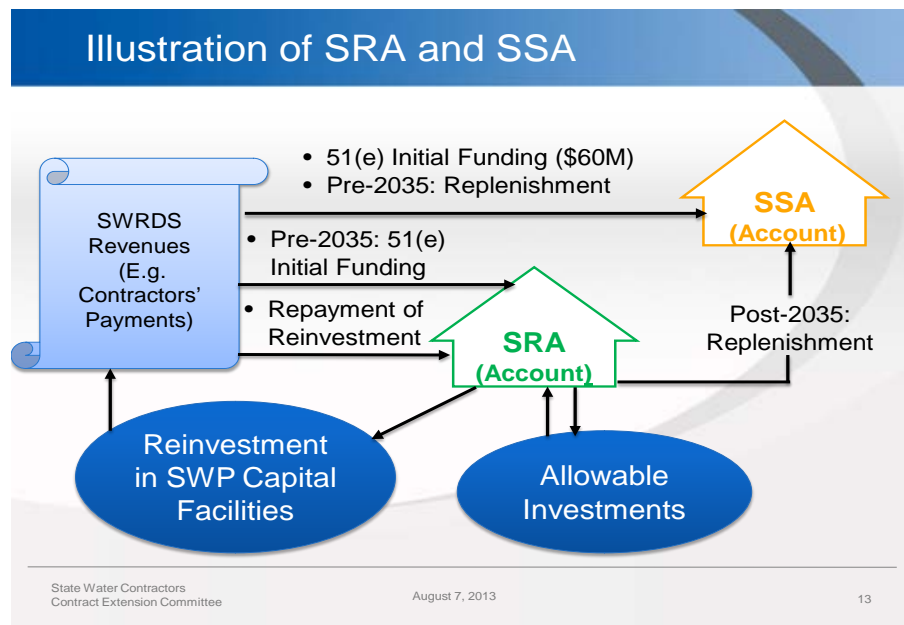
State Water Contractors
Contract Extension Committee

August 7, 2013

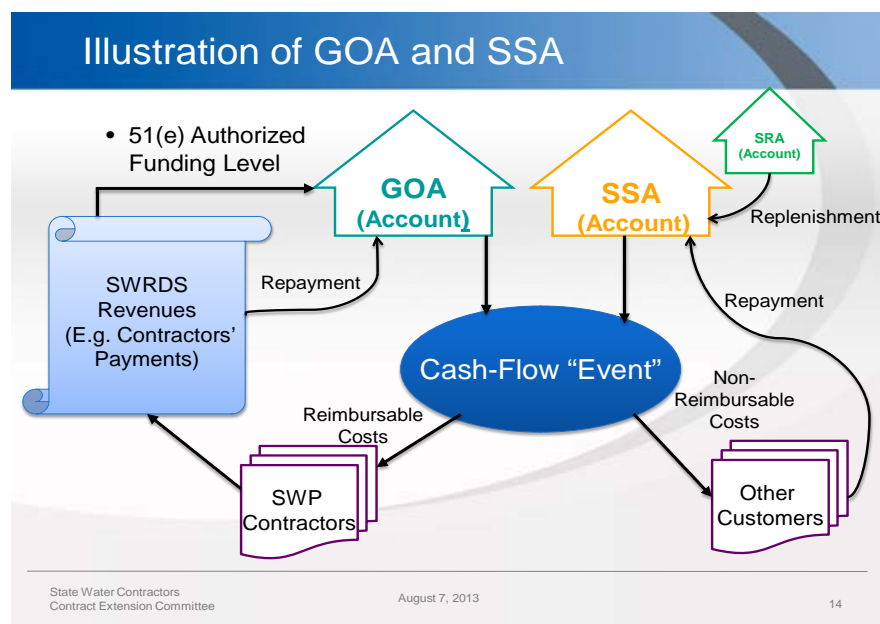
12

Ray emphasized that the criteria for the SSA being supported by SWP Contractors includes the creation of the SRA and to define the SSA for the system's operation and maintenance costs that are non-chargeable. Additionally the uses for the Capital Facilities Account would be redirected to the SSA. The Capital Facilities Account would be eliminated and suspended costs would be paid out of the SSA.

Ray presented graphics to illustrate how the SRA and SSA accounts work together.



He also presented how the GOA and SSA accounts work together.



And he highlighted how Accounts Priorities are proposed in this offer – which go away, and the new rankings. He suggested that there's a distribution between funding the SRA and funding for rate reductions that would need to be worked through.

Accounts Change Priorities

Summary of Change in the Priorities Set Forth in Article 51(e):

Priorities	
SSA Authorized Use	Non-Chargeable "System" O&M and Replacements
SSA Authorized Use	State Water Facilities Capital Account
	Annual Rate Reductions
	General Operating Reserve (Authorized Funding Level)
NEW	SWRDS Support Account (SSA)
NEW (_ %)	(\$60M, Pre-2035 Replenishment)
(_ %)	SWRDS Reinvestment Account (SRA)
	Amount for Additional Rate Reductions:
	Make-up Shortfalls
	Urban contractors
Eliminate	Additional Rate Reduction (24.7%, 75.3%)
SSA Authorized Use	Amount for Additional System Purposes

State Water Contractors
Contract Extension Committee

August 7, 2013

15

Ray presented the Contractor's offer for simplification of billing (Objective 3). He explained implementation of Freeze-Go includes eliminating interest for over and under on future charges redeterminations and a frozen project interest rate of 4.610%. It also includes eliminating the Replacement Accounting System which would be refunded to the Contractors and defining post-implementation terms. Additionally, SWP Contractors proposed expanding 1(hh) facilities authorized for Bond Financing, to finance all repairs additions and betterments, regardless of when the facilities were built, and with the approval of 80% of affected Contractors.

3) Simplification of Billing

- Summary of Simplification Measures:
 1. Implement Freeze-Go
 - No Interest on Over/Unders Post-Implementation (Future Redeterminations)
 - Project Interest Rate is Fixed at 4.610%
 2. Eliminate the Replacement Accounting System (RAS)
 - Refund Unencumbered Balance to Contractors
 3. Define Post-Implementation (2015) Terms:
 - Repayment of Costs
 - Repayment of 'Actual Debt Service'
 1. 100% Financing of SWRDS Capital Costs
 2. Various Financing Methods (Bonds, SRA)
 4. Expanding 1(hh), Facilities Authorized for Bond Financing
 1. Finance all Repairs, Additions, and Betterments Regardless of when Facility was Built
 2. Any Facility Approved by 80% of Affected Contractors

State Water Contractors
Contract Extension Committee

August 7, 2013

18

David Okita stated that Objective 1, the term of the contract (a 75-year term, extending the Contracts to 2110), was the same as the original Contractors offer, recognizing that this is subject to change based on future negotiations.

Term of Contract

- Extend Contract Term by 75 Years from December 31, 2035 to December 31, 2110

State Water Contractors
Contract Extension Committee

August 7, 2013

20

V. SWP Contractors Counter Offer Continued

Carl Torgersen (Department of Water Resources) thanked the SWP Contractors for their offer and acknowledged that it was clear that a lot of energy and effort went into this offer and is appreciated. Carl stated that DWR recognizes that we're coming together on some aspects of the proposed objectives, however, there are also components of the SWP Contractors offer that may be problematic and might require legislation to implement. Carl asked the Contractors to elaborate on components of their offer associated with 1(hh) that states that any facility approved requires 80 percent Contractors approval. He asked if that required 80 percent approval was according to Table A allocations? Additionally, Carl noted that considering that two contractors have 75 percent of Table A, this requirement could mean that that approval by the two largest Contractors plus one other would meet the requirement.

Curtis Creel (Kern County Water Agency) responded that the Table A of Kern and Metropolitan is 69 percent and the intention of the proposal is to have multiple Contractors involved on the financial management topic. Secondly, in other places it refers to 80 percent, but this is not 80 percent of Table A. It would be 80 percent of the Contractors involved. Energy projects, for example, would involve a different set of Contractors and we're suggesting it would be 80 percent of those Contractors involved.

Steve Cohen asked for clarification on rate management and supplemental billing. He asked if the Contractors believe that rate management is no longer in effect after 2035? Ray clarified yes, this is their understanding. Steve then asked if it was also a common understanding that there is no supplemental billing after 2035, and Ray confirmed that this is the Contractors understanding.

Carl asked if a “super committee” was created would some of the many other committees go away? Deven suggested that the State Water Contractors, Inc. would need to be involved in that decision, but the Contractors are open to possible consolidation.

Steve offered an example of adding a facility that would be eligible for 1hh financing that received 80 percent approval from the SWP Contractors, would the 20 percent dissenting be bound to the 80 percent vote? Curtis stated that the SWP Contractors would need to consider this scenario as they continue to develop these concepts.

Deven Upadhyay offered that if it’s useful to have an additional session to talk through the 12-page offer with DWR, then SWP Contractors are willing.

VI. Next Steps

DWR stated that after some additional review of the Contractor’s offer, they will decide whether to schedule additional negotiation meetings, technical team meetings, or appropriate next steps.

VII. Public Comment

Patricia Schifferle from the Planning and Conservation League provided oral comment.

VIII. Adjourn

The meeting was adjourned.

Action Items		Responsibility Due Date
1.	July 10 Negotiation Session Meeting Summary to be finalized and posted on the website.	Kearns & West ASAP
2.	DWR to review SWP Contractor’s Third Offer and decide whether to schedule additional negotiation meetings or technical team meetings.	DWR ASAP
3.	August 7 th Negotiation Session Meeting Summary to be prepared.	Kearns & West ASAP